

1 could read this to you, but I think that's  
2 exactly what I do. I talk about the  
3 inefficiency in international payments. I  
4 talk about XRP potentially capturing that  
5 value. And then I say, "If you imagine that  
6 international payments become cheaper and  
7 faster, then there might be more of them."  
8 That's what I'm talking about here.

9 MR. CERESNEY: This is all kind of a  
10 thought experiment?

11 THE WITNESS: I think I'm very clear  
12 here that I'm adopting the question or the  
13 sort of valuation model and sort of setting --  
14 in the -- initially setting the ceiling and  
15 then sort of just -- this is extremely  
16 speculative. And I think I -- I think I make  
17 that point in here.

18 Q If you turn to page six, the top of  
19 the page, is this -- we spoke about earlier  
20 the possibility of Ripple hedging volatility  
21 or -- that banks would have if they were to  
22 hold up huge pile of XRP?

23 A You are talking about this, "Banks  
24 likely won't hold XRP themselves unless either  
25 the volatility risk is low or someone is

1 willing to do hedge it for them, which Ripple  
2 might me willing to do?" Is that the statement  
3 you are referring to?

4 Q Yes, yes.

5 A Yeah, that's similar to what we were  
6 talking about before.

7 Q At the end of the second post, it  
8 says -- it talks about customers holding a big  
9 pile of XRP and how that affects demand. You  
10 say, "By holding a big pile, they push up the  
11 demand." Can you explain that, why that's  
12 true?

13 A That statement on page --

14 MR. CERESNEY: It's this one  
15 (indicating).

16 A Oh, oh, yes. So -- so if you -- if  
17 you imagine this world where people are using  
18 XRP to originate payments and then they hold a  
19 pile of XRP, then that -- then that -- then  
20 that is -- that is a direct increase in  
21 demand.

22 MR. CERESNEY: But what's the  
23 context of that whole post? I think you are  
24 responding to something.

25 A Yeah. That's not entirely clear

1 what I'm responding to here.

2 Q Well, I think the question at the  
3 top says, "Does the price of XRP increase if  
4 no banks hold it in the future?" Then you say,  
5 "Would be expected to increase the value of  
6 XRP two obvious ways."

7 A And I assume that it's referring to  
8 XRP as a vehicle currency. But it's not --  
9 not entirely clear here. What was your  
10 question?

11 Q I wanted to know how holding a large  
12 pile of XRP would push up demand.

13 A Well, if -- if -- if various  
14 different groups that want to originate  
15 payments with XRP each accumulate a pile of  
16 XRP, that is demand.

17 Q If you look at the second to last  
18 post --

19 MR. CERESNEY: The Hello Ripple  
20 community members?

21 Q Yes. The question is, "What's the  
22 correlation between the future success of  
23 Ripple as a company versus XRP currency?" You  
24 say, "Since Ripple holds over sixty billion  
25 XRP, there's a huge correlation between Ripple

1 success as a company and the long-term price  
2 of XRP." When you talk about success, are you  
3 talking about valuation and increase revenue  
4 for Ripple?

5 A I think what I was talking about  
6 there was the actual amount of money, the  
7 actual amount of value that Ripple could  
8 materialize for shareholders.

9 Q So is that valuation?

10 A Not so much valuation. Because  
11 valuation is kind of at a point in time. But  
12 more sort of the total amount of value that  
13 Ripple could produce.

14 Q Then you go onto say, "The higher  
15 that price, the more value Ripple can get out  
16 of its XRP. Ripple's key business model is to  
17 drive use and adoption of XRP, and ultimately  
18 be able to realize more value from the XRP it  
19 holds."

20 A And to be clear, the question that  
21 I'm responding to is specifically the  
22 connection between Ripple's success and XRP.

23 Q Right.

24 A So I'm talking about that -- not to  
25 the -- I don't mean to imply here that there

1 aren't, you know, there aren't other factors  
2 on both sides. I'm just talking about this  
3 specific connection between those two.

4 Q Correct.

5 A There's certainly a connection in  
6 the direction that Ripple holds a lot of XRP.  
7 And so if the value of XRP, you know, remains  
8 high over a long period of time, then that  
9 could become valuable to Ripple stockholders.

10 Q And to Ripple the company?

11 A It's substantially the same thing.

12 (SEC Exhibit No. 85 was  
13 marked for  
14 identification.)

15 Q Showing you what has been marked as  
16 Exhibit 85, which is again a post on Reddit.  
17 The date on the document is 7/3/2018.

18 MR. CERESNEY: Same date. You think  
19 you printed it out that day?

20 MS. WAXMAN: I think this is when I  
21 viewed the document.

22 MR. CERESNEY: Okay. Okay.

23 MS. WAXMAN: But I'm not sure.

24 THE WITNESS: Okay.

25 (The witness examined the document.)

1 Q If you turn to page five --

2 A Yes.

3 Q It says -- someone's question says,

4 "Serious question: What percentage of  
5 Ripple's value do you think comes from the XRP  
6 that Ripple holds?"

7 A Yes.

8 Q That's a good question. How much  
9 value does Ripple Lab get from its XRP?

10 A I would have to look at the numbers  
11 to tell you. I don't know the numbers  
12 offhand.

13 Q Do you have a rough idea?

14 A I have -- I think most -- I think --  
15 I think -- well, we had a round of -- a large  
16 round of investment recently. As -- if you  
17 limit it strictly to revenue or do you also  
18 include other funding sources. I would have  
19 to -- again, I would have to look at the  
20 numbers.

21 Q Did the company ever disclose how  
22 much value it got from sales of XRP as opposed  
23 to revenue from other products -- from  
24 products?

25 A I believe the XRP markets reports

1 disclosed the revenue from XRP. I don't  
2 believe that we publically disclosed revenue  
3 from other sources. Funding rounds up  
4 basically in conception.

5 Q But not revenue from product sales?

6 A No, I don't believe we disclosed  
7 that information.

8 Q Then you go on -- the very last  
9 paragraph says, "As per whether Ripple will  
10 fail, if XRP fails, I can say that all of our  
11 present plans fail."

12 A Yes.

13 Q Is that still true today?

14 A I think it's substantially true  
15 today.

16 Q Why?

17 A Because all of this strategies that  
18 we -- all of the strategies that we've  
19 executed connect to XRP in some way. I guess  
20 the closest thing to inception would be trying  
21 to extract revenue from the RippleNet strategy  
22 through transaction fees or licensing  
23 agreements. But other than that, I would say  
24 all of our current strategies are primarily --  
25 are -- have enough of an XRP component that

they would require significant strategic changes.

3 Q How small is the RippleNet strategy  
4 component for the business?

5 A It's the -- it's the dominant  
6 strategy of the company today.

## Q The RippleNet strategy?

8 A Yes.

9 Q But outside of -- strike that.

10 (SEC Exhibit No. 86 was  
11 marked for  
12 identification.)

13 Q I don't have a copy of this  
14 document, but it will be quick. I'm showing  
15 you what has been marked as Exhibit 86, which  
16 is an e-mail dated April 6, 2018. The subject  
17 is [REDACTED] And it talks about an FX rate  
18 log in connection with xRapid. And I was just  
19 wondering if you can explain to me what  
20 they're talking about.

21 (The witness examined the document.)

22 MR. CERESNEY: Is he on this e-mail?

23 MS. WAXMAN: He is.

24 MR. CERESNEY: CC'ed.

25 MS. WAXMAN: He's at the top.

1 A I'm CC'ed on it, yeah.

2 So I don't -- I don't specifically  
3 recall what this issue was. I mean, I can  
4 tell you what a rate lock is. But I can't  
5 tell you what the specific issue --

6 MS. WAXMAN: I found more copies.

7 Sorry about that.

8 MR. CERESNEY: Okay. Thank you.

9 A It's unusual for me to be CC'ed on  
10 an e-mail like this. I'm not really sure why  
11 I was included on the distribution list. Do  
12 you want me to explain what a rate lock is  
13 generally?

14 Q Sure.

15 A So a rate lock is when you get an FX  
16 quote, either you'll get a particular exchange  
17 rate. Often, that quote is what the rate you  
18 would have gotten had you performed the trade  
19 at the time you got the quote. Like if you  
20 look at a stock market and you get a quote on  
21 a stock, that doesn't guarantee that you can  
22 actually buy the stock at that price. Or if  
23 you get a quote an FX market, that's a  
24 snapshot.

25 So a lock would be a quote that you

1 had sometime to be able to make a decision  
2 whether to accept or not. It would be more  
3 like a commitment, more like an actual  
4 enforceable growth.

5 Q What was the request being made with  
6 respect to a rate lock?

7 A I can only tell you what it says in  
8 the e-mail. Looks like somebody wanted the  
9 ability to lock an FX quote for at least sixty  
10 seconds. I don't have a recollection  
11 beyond -- beyond what I'm reading in this  
12 e-mail now.

13 MS. WAXMAN: Okay. Thank you. Okay.  
14 Let's take a two-minute break, and then I  
15 think we'll be done.

16 We are off the record at 5:25.

17 (A brief recess was taken.)

18 MS. WAXMAN: It's 5:32. We are back  
19 on the record.

20 Mr. Schwartz, we have no further  
21 questions today. I want to give you an  
22 opportunity --

23 MR. CERESNEY: We don't have  
24 anything.

25 MS. WAXMAN: Thank you very much for

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1 sitting here all day. We appreciate it. We  
2 are now off the record at 5:32.

3 (Whereupon, at 5:32 p.m., the  
4 examination was concluded.)

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1 PROOFREADER'S CERTIFICATE

2

3 In The Matter of: Ripple Labs, Inc.

4 Witness: David Schwartz

5 File Number: NY-09875-A

6 Date: Thursday, January 30, 2020

7 Location: New York, NY

8

9 This is to certify that I, Maria E. Paulsen,  
10 (the undersigned), do hereby certify that the  
11 foregoing transcript is a complete, true and accurate  
12 transcription of all matters contained on the recorded  
13 proceedings of the investigative testimony.

14

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16 \_\_\_\_\_ (Proofreader's Name) \_\_\_\_\_ (Date)

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1 C E R T I F I C A T E

2 STATE OF NEW YORK )

3 :SS

4 COUNTY OF NASSAU )

5 I, Elbia Merino, a Notary Public within and  
6 for the State of New York, do hereby certify:

7 That the witness whose examination is  
8 hereinbefore set forth was duly sworn and that such an  
9 examination is a true record of the testimony given by  
10 such witness.

11 I further certify that I am not related to  
12 any of these parties to this action by blood or  
13 marriage, and that I am not in any way interested in  
14 the outcome of this matter.

15 IN WITNESS WHEREOF, I have hereunto set my  
16 hand on this 7th day of February, 2020.

17 signature

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